



# WEEKLY ECONOMIC DIGEST

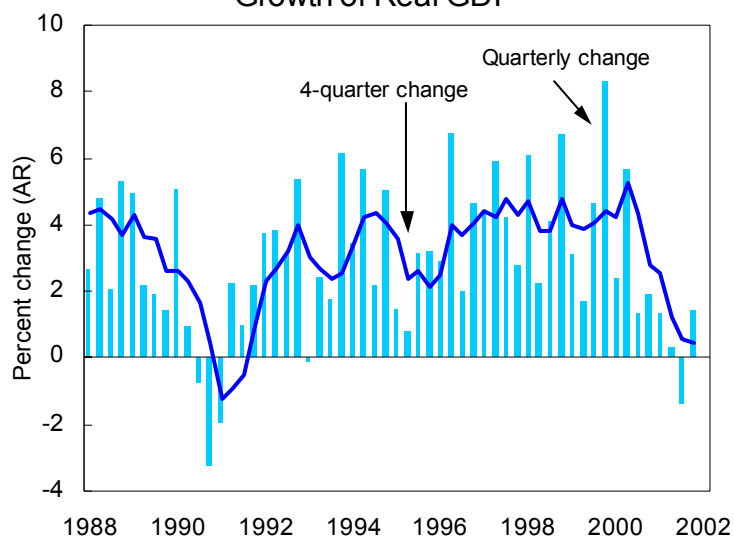


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
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March 5, 2002

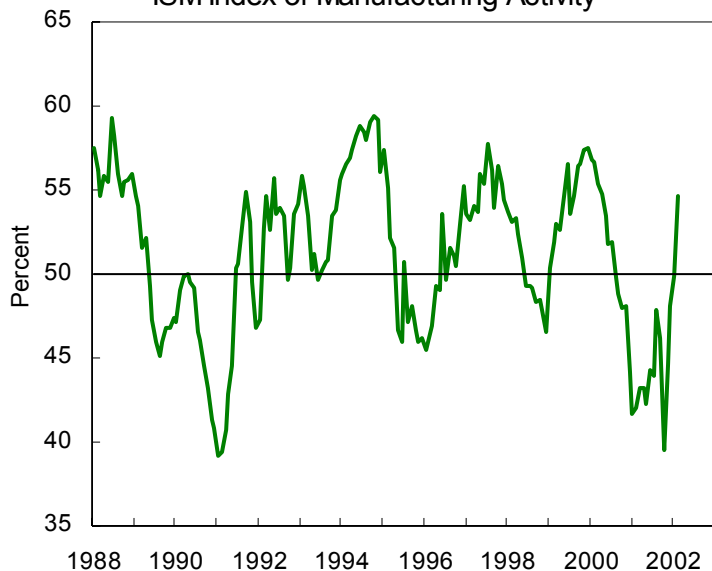
## Economy Shows Surprising Strength But Risks Remain

Growth of Real GDP



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

ISM Index of Manufacturing Activity



Source: Institute for Supply Management.

- **Fourth-quarter growth was more robust than previously thought.** Real (inflation-adjusted) gross domestic product (GDP) grew at a 1.4 percent annual rate during the final quarter of last year, according to revised estimates by the Commerce Department. That growth exceeded the Department's advance estimate of 0.2 percent issued last month. Sizeable revisions of the advance estimate of GDP are not unusual as it is based on incomplete data. More complete data revealed that consumer and government spending were higher and imports lower than previously estimated. The revised data continued to portray an economy characterized by declining capital investment offset by strong consumer and government spending. The upward revision to GDP will be reflected in the revised estimates of productivity growth to be published later this week.
- **Manufacturing may have bottomed out.** The Institute for Supply Management's (ISM) index of manufacturing activity rose to 54.7 percent in February. That index measures the degree to which purchasing managers in manufacturing are reporting growth in manufacturing activity. Historically, the index has been a fairly reliable indicator of production: typically, once that index rises above 50 percent, factory output begins to expand. The February rise in the ISM index was larger than most analysts had anticipated. Even so, the pace at which manufacturing recovers may be tempered by further deterioration in foreign demands for U.S. products.
- **Consumer confidence weakened in February.** Both the University of Michigan's consumer sentiment index and the Conference Board's index of consumer confidence declined last month. Consumers appeared concerned that the economy may experience a below-par recovery over the next six to twelve months. Although both confidence measures remained at levels consistent with relatively healthy levels of spending, consumers reported that they are increasingly worried about unemployment and future income prospects. Those worries are grounded in the current weakness of labor markets. Indeed, aggregate private wages and salaries declined in January to a level only 1.5 percent above a year earlier, the slowest twelve-month growth in more than seven years.

<b>Economy At A Glance</b>	Feb	Jan	Dec	Nov	2001 Qtr 4	2001 Qtr 3	2001 Qtr 2	2001 Qtr 1	2001	2000
<b>Economic Activity</b>										
Real GDP (% growth)					1.4	-1.3	0.3	1.3	1.2	4.1
Industrial Production (% growth)		-1.2	-3.5	-4.7	-6.9	-4.7	-5.9	-6.1	-3.7	4.5
Capacity Utilization (Level, %)		74.2	74.4	74.7	74.7	76.2	77.4	78.9	76.8	81.8
Civilian Unemployment Rate (Level, %)*		5.6	5.8	5.6	5.6	4.8	4.5	4.2	4.8	4.0
Housing Starts (Thousands)		1678	1579	1616	1571	1601	1623	1627	1606	1575
Real Disposable Personal Income (% growth)		18.9	4.6	1.6	-7.9	12.3	2.4	2.7	3.6	3.5
Retail Sales (% growth)		-2.8	2.3	-29.7	12.2	-1.3	5.5	4.8	3.5	7.6
Personal Saving Rate (Level, %)		1.8	0.6	0.4	0.4	3.8	1.1	1.1	1.6	1.0
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, All Items (% growth)		2.4	-1.2	-1.2	-0.3	0.7	3.1	3.9	2.8	3.4
Core CPI-U Inflation (% growth)		2.4	1.2	4.9	2.7	2.7	2.4	3.0	2.7	2.4
Compensation per Hour (% growth)					4.1	3.6	4.1	4.5	4.1	4.4
Output per Hour (% growth)*					3.5	1.1	2.1	-0.1	1.8	3.3
<b>Financial Markets</b>										
T-Bill Rate, 3-month (Level, %)	1.7	1.7	1.7	1.9	1.9	3.2	3.7	4.8	3.4	5.8
T-Note Rate, 10-years (Level, %)	4.9	5.0	5.1	4.7	4.8	5.0	5.3	5.1	5.0	6.0
Federal Funds Rate (Level, %)	1.7	1.7	1.8	2.1	2.1	3.5	4.3	5.6	3.9	6.2
Dow Jones Industrial Avg (Index Level)	9891	9924	9980	9722	9641	9934	10669	10513	10189	10735

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

\* Subject to revision this week.

#### Major Economic News Due This Week:

- **ISM Non-Manufacturing Index, February** [Release: March 5]
- **Manufacturers' Shipments, Orders and Inventories, January** [Release: March 6]
- **Productivity and Costs, Fourth quarter of 2001 (Revision)** [Release: March 7]
- **The Employment Situation, February** [Release: March 8]